



**Testimony
Of**

**The Honorable David G. Wallace
Mayor of Sugar Land, Texas**

**On behalf of
The United States Conference of Mayor**

**Before the House Subcommittee on Water Resources
and the Environment**

**On
“Aging Water Supply Infrastructure”**

April 28, 2004

Introduction

On behalf of the U.S. Conference of Mayor's Urban Water Council and myself I would like to thank you Chairman Duncan and Members of the Committee for inviting me to provide comments on problems cities face with an aging water infrastructure.

The Urban Water Council (UWC) acts as a task force of the U.S. Conference of Mayors. It provides Mayors with a focal point for discussion of issues impacting how cities provide and protect water and wastewater services to the community.

My purpose here today is to add the voice of the U. S. Conference of Mayors to the chorus of public interest groups that have been urging Congress to better appreciate the urgency of investing in the rehabilitation of our aging urban water infrastructure.

The Committee can spend a lot of time documenting the need for water infrastructure rehabilitation because there are so many examples of water damage events in the cities across the nation.

Last year the Urban Water Council learned about the water main breaks plaguing one Ohio City for years. We saw a video of three separate breaks in a short period of time. We later learned that since those breaks the new Mayor has experienced three more breaks.

Each of these breaks has caused considerable collateral damage to property and businesses affected by the flooding. What is not available is a systematic compilation of damage and productivity loss statistics for a given event. Such local impacts are greatly affected by the local makeup of land use activities in a flooded area, and they will likely be different for different cities. Nonetheless, the financial impacts on businesses can be considerable.

It would be interesting to tabulate the local economic impacts of water main breaks and disruption of business and daily life from problems caused by a decaying water infrastructure. Such an analysis, however, may only divert our attention to the obvious while the more fundamental question of financing water infrastructure rehabilitation and new construction remains unanswered.

Water Infrastructure Financing

The Urban Water Council has testified a number of times before this Committee about the need for changes in law to help cities renew their water infrastructure. Some have proposed greater levels of federal contributions to the State Revolving Fund (SRF): others have suggested a tax on users and the establishment of a Water Trust Fund. Both of these ideas have merit.

The Urban Water Council has urged Congress to make it easier for cities to take advantage of private activity bonds (PABs) to rehabilitate or construct new water infrastructure. Currently the state volume cap in conjunction with the highly competitive need for schools, housing and public safety facilities has effectively limited the amount of PABs used for water facilities.

The UWC has reviewed water infrastructure spending including use of the SRF and the use of municipal bonds. Generally speaking, the SRF is an important source of financial support for water infrastructure. But it may be more or less important as a source of financing for any given city. Overall, the SRF may only account for 10 percent of the annual investment in water infrastructure in the U.S. Municipal bonds/revenue bonds continue to be the primary source of financing public water infrastructure in this nation. Local government, not the SRF, provides the highest level of water infrastructure investment. We seek alternative financing approaches because we recognize that municipal bonds and the SRF combined still do not provide enough money to meet compliance with clean water law and regulation.

Changing the tax code and exempting water and sewage facilities from the state volume cap for PABs could be one of the most fruitful financial incentives the Congress can provide. It potentially could bring billions of dollars of additional, much needed, investment to our facilities over and above what can be accomplished through the use of SRF loans.

The Urban Water Council has identified three basic approaches to help cities finance the water and wastewater infrastructure development necessary to comply with clean and safe drinking water laws. These include: grants; 30-year no-interest loans; and, greater use of Private Activity Bonds (PABs).

- Providing grants to municipalities, either directly or through states, for water and wastewater infrastructure where there is an affordability issue or when a community faces severe environmental problems;
- Expanding some portion of the current 20-year loan category to include a 30-year no-interest loan category under the State Revolving Fund loan program for water and wastewater infrastructure investment; and
- Modifying current tax law by removing Private Activity Bonds (PABs) used for water and wastewater infrastructure from state volume caps.

In our opinion, these approaches are the best means to meet our water infrastructure needs.

Recently the UWC held a regional seminar in Sugar Land, Texas. What we learned at the meeting was that Representative Jim Davis of Florida has sponsored a bill (H.R. 3410) that would remove the state volume cap for water and sewer projects using PABs. The legislation is similar to an earlier proposal by past Representative Karen

Thurman of Florida. The proposal was ‘scored’ by the Joint Tax Committee who estimated that the loss to the Treasury would be less than \$150 million. The public benefits in terms of environmental protection and economic stimulus far outweigh the loss to the Treasury in this instance.

The use of PABs as one alternative financing mechanism provides flexibility for cities that are trying to make timely and environmentally critical decisions about water infrastructure investments. Cities have increasingly turned to the efficiencies achievable through public-private partnerships. Where the public benefits from harnessing the expertise and cost-savings from the private sector water service providers.

Critics argue that this is a form of privatization, and cities will lose control of water resources in their communities. This is not the case. Public-private partnership arrangements are defined in service agreements that are legally binding contracts. The U.S. Conference of Mayors has been working with cities for the last 7 to 8 years to help them better understand how to structure partnerships to ensure an adequate supply of high quality water and dependable wastewater treatment services. These contracts normally shift performance risks to the private operator, but ownership of the facilities and user rates are in the hands of the public partners in the contract.

Still others argue that removing PABs from the state volume cap is politically unacceptable. Such legislation, it is argued, could be amended to require Davis-Bacon wage rates on projects financed with PABs. This is not the case now, and does not necessarily have to happen. We urge Congress to balance the nation’s need for a clean and adequate water supply with the needs of workers seeking higher wages.

I would like to ask Chairman Duncan and Members of the Committee two questions that Mayors would like to know the answer to.

1. Why is it that the Committee spends most of its time dealing with the SRF for wastewater that only provides 10% of overall water infrastructure investment, and is not examining the burden placed on local government that provides nearly 90% of annual investment?
2. Can Congress make the needs of American citizens and our nation’s cities for clean and adequate water supplies a top legislative priority, and not let wage rate debates prevent change?

I look forward to hearing from you Mr. Chairman and other Members of the Committee.

Thank you, once again, for this opportunity to provide comments to the Committee. I am available to answer any questions you might have.

The Urban Water Council
A Task Force of The U.S. Conference of Mayors

The UWC is open to all Mayors, and functions like a USCM task force – providing Mayors with a focal point for discussion of issues impacting how cities provide and protect water and wastewater services to the community. The UWC has, and will continue to develop positions on Federal legislation, regulations and policy. The UWC will continue to act through the USCM Environment Committee, and other Committees, as appropriate, to propose and adopt resolutions on water related matters.